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SUBJECT: UBS BAILOUT: GIC TRIES ITS HAND AT TRANSPARENCY

REF: BERN 01128

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11. (SBU) Summary: The \$11.2 billion investment in Union Bank of Switzerland (UBS) by Singapore's Government Investment Corporation (GIC) generated cries (reftel) of "Black Monday" in Switzerland, but in Singapore the investment is widely seen as positive not only for the financial sector but also for efforts to make GIC itself more transparent and open. GIC, in an unprecedented press conference to announce the investment, said that it intends to play a key role in formulating a set of guiding principles for sovereign wealth funds (SWFs). GIC's management laid out specific areas where it is prepared to be more transparent, including disclosing the fund's investment objectives, general strategy, internal and external governance structure and risk management systems. While this is an improvement for the historically opaque investment fund, some critics will not be satisfied without more transparency on GIC's financial information. End summary.

GIC -- Largest Shareholder in UBS

12. (U) Cries of "Black Monday" in Switzerland (reftel) followed UBS's December 10 announcement of plans to write off an additional \$10 billion in losses on collateralized debt obligation (CDO)-related investments and UBS's revelation that GIC and an unnamed Middle Eastern investor are investing 11 billion Swiss francs (US\$13.9 billion) in the bank's convertible bonds. These bonds will pay an annualized interest rate of 9 percent until they are converted into shares. Once converted, GIC will own approximately 9 percent of UBS shares, making GIC the largest shareholder in Europe's biggest bank by assets.

13. (U) The investment marks a departure from GIC's traditional

policy of portfolio diversification that relies on taking relatively small stakes in public equities. In contrast, GIC's sizeable investment in UBS parallels similar high-profile investments in 2007 by SWFs in global financial institutions, including:

-- Singapore's Temasek Holdings and Davis Select Advisors' December 24 investment in Merrill Lynch shares worth \$6.2 billion.

-- Abu Dhabi Investment Authority's November 27 investment in Citigroup convertible bonds worth \$7.5 billion.

-- China Investment Corporation's December 19 investment in Morgan Stanley shares worth \$5.0 billion.

Improving Transparency and Openness at GIC

¶4. (U) In Singapore, GIC's investment in UBS is widely seen as positive, not only for the financial sector but also for efforts to make GIC itself more transparent and open. GIC held an unprecedented press conference to explain its multi-billion dollar investment. GIC Deputy Chairman (and Singapore's former deputy prime minister) Tony Tan said that "the fact that we are calling the press conference today is an indication that we would like to share this transaction with you, a chance to put forth any queries you might have." Tan said GIC made the investment for purely commercial reasons and that it did not intend to gain control, influence management, or seek representation on the UBS board of directors.

¶5. (U) Tan said that GIC would play a leading role in addressing global concerns about SWFs, which are growing in

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size (see table 1). He said "Singapore will participate actively in efforts to formulate a set of principles and best practices for SWFs. GIC believes that it can contribute in a positive way to the framework for greater disclosure."

Table 1: Estimated Size of Largest Sovereign Wealth Funds

Name	Date Established	(\$ billion)
Abu Dhabi Investment Authority (ADIA)	1976	875
Norway's Government Pension Fund	1990	329
Kuwait Investment Authority	1960	213
Singapore's GIC	1981	330
Russian Stabilization Fund	2004	141
Singapore's Temasek	1974	108
China's Central Huijin Investment Co	2003	68
Qatar Investment Authority	2005	50
Australia Future Fund	2006	49
Algeria Revenue Regulation Fund	2000	43

Source: The Edge (December 17, 2007)

¶6. (U) Tan said SWFs have to help alleviate through greater transparency U.S. and European concerns about the funds' growing influence. He said that "there is a case for further disclosure on the part of SWFs, in the interest of transparency. Such disclosure can include clarity on the relationship between SWFs and their respective governments, their investment objectives and general strategies, and their internal governance and risk management practices." Tan said that "any guidelines for SWFs should encourage them to operate according to commercial principles with (a) long-term view and which are free from political motivations." At the same time, he warned, "recipient countries should not adopt policies that inhibit cross-border investments or discriminate against SWFs."

Comment: Will GIC's Transparency Strategy Work?

¶7. (SBU) Analysts see GIC's openness about the UBS investment and its alignment with the calls for SWF best practices as a response to the growing chorus of concerns from the United States and Europe about the increasing clout of SWFs. GIC's moves toward transparency are a step forward for the usually secretive SWF. However, GIC has been very specific about what

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it is prepared to disclose and steadfast in its opposition to disclosing either its total size or its financial statements.

Very few officials at the Ministry of Finance, GIC's sole shareholder, know the total value of the GIC's assets and the Minister of Finance maintains the position that disclosing such information would lead to inappropriate pressures to spend the funds. It remains to be seen whether laying out the fund's motivation, structure, governance, and risk management will provide enough evidence of purely commercial intentions to allay critics' concerns. End
Comment.

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